Report to the
Senate Appropriations Committee on Health and Human Services
House of Representatives Appropriations Subcommittee
on Health and Human Services
and
The Fiscal Research Division of the General Assembly

DHHS POLICIES AND PROCEDURES IN DELIVERING COMMUNITY MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES

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Section 10.51(b)

North Carolina Department of Health and Human Services

Report to the House of Representatives Appropriations Subcommittee on Health and Human Services, Senate Appropriations Committee on Health and Human Services, and the Fiscal Research Division

In accordance with Session Law 2007-323, HB 1473, Section 10.51(b), as set forth below, the Department of Health and Human Services, Division of Mental Health, Developmental Disabilities and Substance Abuse Services submits this report.

DHHS POLICIES AND PROCEDURES IN DELIVERING COMMUNITY MENTAL HEALTH, DEVELOPMENTAL DISABILITIES, AND SUBSTANCE ABUSE SERVICES

SECTION 10.51.(b) *The Department shall rework the revised system of allocating State and federal funds to area mental health authorities and county programs to better reflect projected needs, including the impact of system reform efforts rather than historical allocation practices and spending patterns. The reworked allocation shall include the following:*
(1) For each LME, the current allocation by source and age/disability category, and the newly proposed allocation by source and age/disability category;
(2) A clear formula for how the new allocations are derived with a detailed methodology for how the formula was created; and
(3) A plan for moving to the new formula.
The Department shall submit the reworked language to the House of Representatives Appropriations Subcommittee on Health and Human Services, the Senate Appropriations Committee on Health and Human Services, and the Fiscal Research Division not later than October 1, 2007, for review. The Department shall implement the system only after review and approval by the 2007 General Assembly, Regular Session 2008.

I. Considerations in Undertaking Revised Allocation System Task

Currently, state funds and state-allocated federal funds appropriated for the payment of services for individuals with mental illness, developmental disabilities, and substance use disorders are allocated to Local Management Entities (LMEs) on a largely historical basis. Since the distribution methodology has evolved over the past thirty years, it is not easily explained or understood. It is difficult to explain why catchment areas of roughly the same size receive widely different allocations, as illustrated in the table below.

Local Management Entity	Population	Allocation
Onslow-Carteret	223,377	$ 4,773,594
Orange-Person-Chatham	221,571	$11,971,430

Over the years, the Division, in conjunction with the General Assembly, DHHS, LMEs, contractors, and county managers and commissioners, has made various attempts to review and restructure the system of allocating Division funds to LMEs for the provision of services at the local level. These efforts, to varying degrees, have involved consideration of county funds, utilization of State facilities, current level of service provision, “catch up” funding, i.e., determining those LMEs below the State’s median per capita allocation level and targeting expansion funds to those below the median, and so forth. While each effort contained positive considerations within their respective approach, there were varying levels

of support by the stakeholders involved. The most recent effort to determine an equitable distribution of funds was undertaken last year with the assistance of Heart of the Matter Consulting, Inc. While the results of this effort provided an estimate of long-term funding needs within the public mental health, developmental disabilities and substance abuse system, implementation of funding decisions was extremely complex in the method of estimating movement of the system to best practice on an individual county and LME level. Information provided by that project will be valuable to the Division in helping to set service priorities and targets for penetration rates, continuity of care and implementation of best practice services. However, in recognition that full funding in accordance with that model will likely not be a reality in the near future, the allocation formula presented herein seeks to realign service resources on a more equitable basis in the short term. Information from the previous report related to implementing comprehensive best practice services, increasing penetration rates and service continuity, and decreasing waiting lists can guide the development of priorities and initiatives set by consumers, LMEs, DHHS, the Governor and the General Assembly.

In the approaches presented herein, the Division believes that an allocation formula which is simple in methodology to administer is essential to success. Over the past biennium, the General Assembly has primarily utilized two similar methodologies for the allocation of funds: per capita and a ratio of the persons in poverty to the total state population in poverty ("poverty per capita.") The Division proposes using a combination of these methodologies in the future. This report sets forth three alternatives moving the distribution of service funding among LMEs to a more equitable basis. The first option simply realigns existing resources among LMEs and includes a recommended timeframe to accomplish this. The second option would hold LMEs with allocations above the amount to which they would be entitled on the per capita/poverty per capita allocation basis harmless and would require increased appropriations of $30.4 million over five (5) years to bring underfunded programs up to the prescribed level The third option is based on a different approach in which current funding is not reallocated among LMEs but a more equitable distribution of funds would be achieved through a revised allocation methodology using only expansion funds.

II. Factors Included for the Equitable Distribution of Community Service Funding

DHHS proposes that an equitable distribution of funds would be based on each LME receiving one-half of the total funds available based on a population per capita distribution, adjusted for Medicaid eligibles per county, and the other one-half of the total funds available would be distributed based on each LME's prorata share of the number of individuals in poverty. Funds allocated for Cross Area Service Programs (CASP) would be excluded from this redistribution since CASP programs serve multiple LMEs. These factors were selected for the following reasons:

1. P**opulation:** North Carolina has one of the fastest growing populations in the United States; however, growth within North Carolina is not uniform. From July 1, 2000 to July 1, 2008 population growth over this period ranged from 2.00% at Cumberland to 34.46% at Wake. Unless population is a key factor in the allocation formula, those LMEs with high population growth rates will tend to gravitate towards the lower end of an equitable distribution scale. In considering population as a key factor in the allocation formula, the Division proposes to decrease the population distribution base for each LME by the

number of Medicaid eligible consumers within the LME catachment area. The purpose of this adjustment is an effort to recognize that most services for the Medicaid eligible population are funded by Medicaid and not by DMHDDSAS funding which focuses primarily on the indigent population.

2. **Poverty:** Poverty levels, as included within the recommended formula, are used as a general indicator of the need for funding to provide services to indigent consumers. Many consumers of mental health, developmental disabilities, and substance abuse services are indigent. By including poverty as a variable within the proposed allocation formula, those LMEs with a high concentration of individuals within the poverty index will gain funding when compared to distribution based on population only.

Attachment I-A sets forth the estimated shift in resources to accomplish this reallocation. DHHS recommends that if this approach is adopted, the redistribution of funds occur in equal installments over a period of no less than five (5) years. This period of time is needed to provide for minimal disruption of services while LMEs adjust to increased or decreased levels of funding and to help ensure an adequate and stable system of providers in all areas of the State.

Attachment I-B sets forth the estimated impact of this transfer by age/disability. The age/disability estimated impact must be understood with the following factors in mind, (a) estimate does not include funding which flows to single stream funded LMEs since their funds are not budgeted by age/disability, and (b) the categorization of funding realignments by age/disability are based upon how funds are currently budgeted and this is subject to change as each LME would seek to budget funds as needed to address local needs.

Attachment I-C sets forth the impact if LMEs with funding levels above the amount those programs would receive under the proposed allocation methodology were held harmless and new appropriations were enacted by the General Assembly to gradually increase the underfunded LMEs to the specified level over a five (5) year period of time.

III. Equitable Distribution of Funds Utilizing Only Expansion Funds and Not Reallocating Existing LME Service Funds

Under this approach, current funding would <u>not</u> be redistributed based on the recommended formula. Rather, current funding would be taken into consideration in the formula only as it impacts future allocations. DHHS has concerns that it would be disruptive to realign current funding among LMEs at a time when LMEs are working to transform the current service system and ensure an adequate and stable system of providers in all areas of the State. This option will address that concern.

1. **Option 1 Using Only Expansion Funds With 20% "Catch Up" Factor Included:**
    a. Forty percent (40%) of expansion funds would be allocated to LMEs based on population, adjusted for Medicaid eligibles within each LME. Population is utilized herein for the reasons previously noted in section II.1. above.

b. Forty percent (40%) of expansion funds would be allocated to LMEs based on poverty. Poverty is utilized herein for the reasons previously noted in section II.2. above.
c. Twenty percent (20%) of expansion funds would be allocated, on a prorata* basis, to those LMEs funded below their share of a distribution of current funding based on the 50% population – 50% poverty formula . While the variables of population and poverty will be the key baseline index for the distribution of Division funds on a more equitable basis among LMEs, a certain percent of expansion funds would be allocated only to those LMEs which are underfunded based on population and poverty in order to accelerate the equitable distribution of funds. To determine which LMEs require increased funds to reach the 50% population – 50% poverty distribution level, the Division will determine the amount needed by individual LMEs to reach the 50% population – 50% poverty distribution level and each of these LMEs would receive a prorate share of the 20% funding.. This factor accelerates moving LMEs to an overall funding level goal of 50% of funding being allocated based on population and 50% of funding being allocated based on poverty by recognizing previous disparities in funding among LMEs.

**Prorata: This is defined as each LME that needs additional funds to reach the 50%-50% distribution target would receive their prorate share of the total amount all LMEs would need to reach the 50%-50% distribution target, except that no LME receiving 20% "catch up" funding would receive less than they otherwise would under the 50%-50% distribution formula.*

d. **Attachment II** is a projection of how $20,000,000 in expansion funds would be distributed in the aggregate to LMEs based on the Option 1 formula.

2. Option 2: Using Only Expansion Funds – 50% Population and 50% Poverty With No 20% "Catch Up" Provision

This formula is the same as the Option 1 formula except there is no provision for the 20% "catch up" funding. All expansion funds would be allocated to LMEs based on the distribution formula of 50% population (adjusted for Medicaid eligibles) and 50% poverty.

Attachment III is a projection of how $20,000,000 in expansion funds would be distributed in the aggregate to LMEs based on the Option 2 formula.

IV. Recommendations for Implementation and Future Funding Formula Adjustments

1. DHHS recommends that equitable funding be achieved through future expansion funds which may be appropriated July 1, 2008, and later.
.2. DHHS recommends that the revised funding formula be adopted with the intent to keep it in place for at least five (5) years, i.e., SFY 09 through SFY 13, in order to provide a stable funding environment and allow time for system growth to take place. Growth in the system will be measured by factors such as increases in persons served, reductions in waiting lists, increases in penetration rates for all age

and disability groups, improved consumer outcomes, increases in service continuity, implementation of crisis service plans, and increases in the availability of comprehensive services which are considered best practice.

3. Funding formula would exclude funding provided to LMEs for Cross Area Service Programs (CASP) since such programs provide services across multiple LMEs.
4. For those LMEs not receiving their funding through single stream, DHHS recommends that funding allocated under any new formula initially be provided as an aggregate amount, with each LME working with the Division to establish the distribution of funds by age and disability prior to the utilization of funds. With an increase in the number of LMEs moving to single stream funding, amounts previously budgeted by age/disability will decrease as funds are moved into the single stream funding account**.**

V. Summary of Attachments

Attachment I-A: Reallocation of existing resources among LMEs at an aggregate level for single stream funding sites and at the age-disability level for other LMEs based on the recommended formula.

Attachment I-B: Summary of impact on age/disability funding based on the adoption of a funding formula which realigns current LME service funding.

Attachment I-C: Funds needed to bring underfunded LMEs up to the specified allocation level if LMEs with funding levels above the amount those programs would receive under the proposed allocation methodology were held harmless.

Attachment II: Option 1 for the distribution of expansion funds only on a new allocation formula, i.e., 40% population (with adjustments for Medicaid eligibles), 40% based on poverty, and 20% for "catch-up" funding for those LMEs below where they would be if all funds were allocated on a 50% population and 50% poverty basis. This spreadsheet also reflects, for informational purposes, how $20m in expansion funds would be allocated if distributed based on this formula.

Attachment III: Option 2 for the distribution of expansion funds only on a new allocation formula, i.e., 50% based on population (with adjustments for Medicaid eligibles) and 50% based on poverty. This spreadsheet also reflects, for informational purposes, how $20m in expansion funds would be allocated if distributed based on this formula.

Attachment IV: Comparative summary of which LMEs receive more or less under a population (adjusted for Medicaid) only formula vs. a poverty only formula.